SCOTT PAPER LIMITED FIFTIETH ANNUAL REPORT 1972

SCOTT

SCOTT PAPER LIMITED
1972 ANNUAL REPORT

Head office / New Westminster, British Columbia

Plants / New Westminster and Surrey, British Columbia and Crabtree, Quebec

Sales offices / Vancouver, Winnipeg, Toronto, Montreal and Dartmouth, Nova Scotia

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Ce rapport annuel est publié en français et en anglais. Si vous désirez en obtenir un exemplaire additionnel, prière d'aviser le Secrétaire.

Contents

SPECIAL NOTE TO SHAREHOLDERS:

For Capital Gains Tax purposes, the value of Scott Paper Limited common shares on Valuation Day, December 22, 1971, was $18.50 per share.

Financial Highlights

FOR THE YEAR	1972	1971	Percent Change
Net sales	$48,117,769	$42,910,244	12.1
Depreciation	2,031,235	1,779,898	14.1
Interest expense	1,103,356	878,993	25.5
Income before taxes	3,244,154	3,048,925	6.4
per share	4.06	3.81	
Income taxes	1,557,000	1,463,000	6.4
Income after taxes	1,687,154	1,585,925	6.4
per share	2.11	1.98	
Dividends	760,000	720,000	5.6
per share	.95	.90	
Income reinvested in the business	927,154	865,925	7.1
Cash flow from operations	4,265,631	3,918,323	8.9
per share	5.33	4.90	
Capital expenditures	3,086,505	3,376,044	
Salaries, wages and benefits	12,684,234	11,534,509	
AT YEAR END			
Ratio current assets to current liabilities	2.0	1.9	
Long term debt	$12,000,000	$12,000,000	
Shareholders' interest per share	$ 27.08	$ 25.92	
Number of shares outstanding at year end	800,000	800,000	
Number of shareholders	1,205	1,313	
Number of employees	1,304	1,199	
Investment in assets per employee	$ 27,400	$ 28,600	

Arthur F. Armstrong,
Chairman of the Board

Chairman's Message to Shareholders

During 1972, the Canadian pulp and paper industry and Scott Paper Limited benefited from the improving economic climate and the return to more normal market growth rates.

Our company's unit and dollar sales, as well as earnings per share, all reached record high levels. The principal factors contributing to our 1972 performance were: increased utilization of installed manufacturing capacity, the encouraging growth in sales and profitability of new product lines, further improvement in manufacturing efficiencies and effective limiting of cost and expense increases under company management's control.

During 1972, we continued new product development and marketing and the charging of the large investments in this area to current operations. We put additional emphasis on innovations and improvements to established products. We invested in new distribution facilities and methods to improve service to customers and lower costs in this important area of our operations.

Corporate development and planning activities were further strengthened by assigning to the Financial Division several experienced executives whose principal function is to work with company management in the development of new and profitable opportunities for growth as well as on the ever present need for improving the realized returns on our established business.

As we enter 1973, we view with concern the continuing rapid inflation in major operating, payroll and material costs, high Provincial and Federal tax rates on profits, and the uncertainty stemming from world trade imbalances and fluctuating currency exchange rates. To offset these external factors insofar as possible, we intend to devote our internal resources and abilities to the achievement of higher sales and operating efficiency gains.

We are optimistic about the opportunities for expansion of the Canadian market for convenience and disposable paper products such as diapers. However, the initial capital requirements and marketing expenditures in these areas will be high. Assuring dependable employment for our present 1,300 people plus the creation of additional jobs and new individual opportunities remain important objectives in our growth plans.

Among the notable events of 1972 was the realignment of the executive management of the company. Mr. George L. O'Leary, Executive Vice President of the company and a Director since 1963, was elected President and Chief Operations Officer. Mr. H. Peter Sanagan was appointed Vice President, Consumer Products Marketing. Mr. James C. Boyle was appointed Assistant Vice President and Director of Industrial, Export and Specialty Sales. Mr. John F. Philip was appointed Assistant Vice President and General Manager, Eastern Manufacturing Division. Mr. W. M. Ferrie was appointed Assistant Vice President and Director of Corporate Personnel. Mr. John J. Herb was appointed Secretary and Mr. Thomas J. Birkenhead was appointed Assistant Controller. All of these men bring to their new responsibilities the knowledge and talent required to contribute to the accomplishment of 1973 objectives as well as to the longer range growth plans of the company.

In April of this year, Mr. Horace F. Winchell, a Vice President of the company, will retire after 42 years of distinguished service with the Scott organization and Scott Paper Limited. In accordance with our policy, Mr. Winchell will also retire from the Board but will continue to work with company management on the engineering and technical aspects of several current projects. Mr. A. W. Fisher, Q.C., presently an alternate Director, will stand for election to the Board at the forthcoming Annual Meeting of Shareholders.

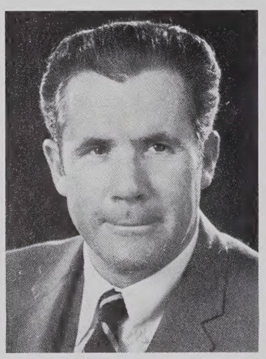
For the Board of Directors,

A. F. Armstrong,
Chairman

New Westminster, B.C.
March 23, 1973.

". . . to love you with all my heart . . . to care for you as best I know how." Today in Canada more mothers each week are praising the matchless purity and wonderful convenience of new babyScott disposable diapers.

President's Report on Operations To Shareholders and Employees



George L. O'Leary, President

Our company's 50th year was one of considerable achievement. Both sales and after-tax earnings increased for the seventh consecutive year following our plan for the continued steady growth of Scott Paper Limited.

In 1972 the consolidated sales of consumer, industrial, export and our wholly-owned subsidiary Westminster Paper Company amounted to $48,117,769 for an increase of 12.1% over 1971. Net earnings increased by 6.4% to $2.11 per common share from $1.98 per share in 1971. The return to faster levels of growth and consumption rates of sanitary and convenience paper products in Canada accompanied by the success of our aggressive marketing and sales efforts made possible the new record high levels of sales for the year. The rate of increase in after-tax earnings did not match the sales increase due to the heavy costs of marketing new products and the continuation of inflationary cost increases throughout the company which could not be fully offset by a very significant improvement in manufacturing efficiencies and internal cost control programs.

Financial

Pre-tax earnings in 1972 increased by 6.4% to $3,244,154. After-tax earnings for the year amounted to $1,687,154 compared to $1,585,925 in 1971. The effective tax rate for the year was 48%, equal to that of the previous year.

Capital expenditures in 1972 amounted to $3,086,505 all financed by the improved cash flow generated from company operations. The principal capital expenditures were made for new production equipment, improvement of existing facilities including a new distribution center for Western Canada at New Westminster, B.C. and for the company's continuing program to meet and fulfill the federal and provincial standards related to environmental protection at our two manufacturing locations.

Working capital at year end amounted to $6,769,489, an increase of $474,472 for the year. Commencing with the third dividend period, the quarterly dividend rate was increased from 22½c to 25c per share. A total of 95c was paid in 1972 marking the 42nd consecutive year of dividend payments to shareholders. In 1972 all costs associated with new product introductions of which the most significant was the national marketing program for BABYSCOTT DIAPERS and the start-up costs related to new manufacturing equipment were absorbed and charged against earnings.

These original oils were commissioned from leading artists in each of Canada's ten provinces. A fine set of reproductions is now in its second printing.

Marketing and Sales

A record increase in the sales of the company's packaged products played a major role in the overall increase in both dollar and case volume for the year. The successful completion of our national introduction of BABYSCOTT DIAPERS—higher volumes in our export and bulk sales and Westminster Paper Company, all combined with a more buoyant economy to produce the 1972 sales record.

The distribution and availability of Scott consumer and industrial packaged products was increased in 1972.

New discount grocery stores, multi unit shopping centers and the trend toward large self service drug stores provided opportunity for increased presentation of Scott products to the consumer throughout Canada.

In spite of increased costs on all sides, we were able to generally hold the line on price increases in 1972.

High levels of media advertising were continued to build and increase consumer awareness of the qualities and values of Scott packaged products.

To commemorate our 50th anniversary year, a special promotion offering prints of paintings depicting the vanishing rural architecture of Canada was launched. This unique promotion, pictured in this report, was most favourably received by customers and consumers across the country.

The new Warehouse and Distribution Center in the Western Manufacturing Division has achieved significant reductions in costs while increasing the level of Scott's customer service.

Manufacturing

1972 was both a year of challenge and significant accomplishment for the manufacturing division. The rapidly rising costs of purchased materials, energy, manpower and freight made the year a most difficult one in meeting budgeted costs and financial objectives. Efficiency gains achieved in manufacturing and a further increase in the utilization of the new papermaking, converting and related facilities completed in 1971, made it possible to partially offset rising costs. The concentrated efforts of the manufacturing group constituted one of the most significant contributions to the company's financial performance.

The use of paper products in the "hospitality industry" is increasing rapidly. Scott has won a strong position in this important market with new products tailored for away-from-home environments.

At our Quebec and British Columbia manufacturing locations, further investments were made to improve environmental protection and to meet the required standards. In 1973 an additional $700,000 will be expended by the company in the environmental area.

To ensure the company's pulp requirements, several long term contracts with major suppliers were signed. Currently a program to ensure the continuity of an economical wood supply for our own pulp making operations is being undertaken.

The hotel, motel, or restaurant furnishing Scott quality products provides a benefit soon noticed by guests. A significant part of Scott's new product development efforts are directed toward this market.

To commemorate our 50th anniversary, an Open House was hosted by our New Westminster manufacturing people. Over two thousand persons representing families of Scott employees, suppliers and customers visited the western facilities.

New Product Development

Much of our company's recent growth has come from new and improved products provided by the research and development of Scott Paper Company in the United States. Many of these concepts require additional development, research and expenditures as they are successfully adapted to the Canadian market. It is in this area that we are devoting increased effort. Our technical and marketing people are working closely with the new corporate development division, to accelerate plans for product diversification and improvement.

The developmental costs associated with these ventures are a necessary investment in the plan for longer range sales and profit growth.

Scott People

With the relatively high level of operations achieved in 1972, we were able to mark another year of steady employment. Individual opportunities were numerous for promotion and advancement and the spirit of employee cooperation was again a notable feature throughout the company.

A happy group at the Twenty Year Club Dinner held in November for the Western Manufacturing Division and the Corporate and Sales groups. A similar evening is a popular annual feature in Crabtree, Quebec.

Two labour agreements expired during the year and were successfully renegotiated, on a two-year and 27 month basis respectively. A third labour agreement will expire in mid-1973. We are proud of the long standing good relationships that exist with the elected union officers and our people in all areas of the business. At the present time, over 40% of all Scott people have ten years or more service and their experience and ability is one of our major assets.

Outlook

While many uncertainties exist, indicators reflect a much improved business atmosphere for 1973. Retail and grocery store sales are now showing a marked improvement over a year ago.

As a result of increased rates of purchase, the large excess capacity that has existed in our industry is expected to diminish. This offers the prospect for an improvement in the present unsatisfactory cost/selling price relationship.

We are most grateful to all of our people, our customers and suppliers who made things happen in 1972.
We will strive, with their continued support, to make 1973 an even better year as we enter the second half-century of our company's operations.

George O'Leary

George L. O'Leary,
President

New Westminster, B.C.
March 23, 1973.

Scott's marketing group maintain a continuing review of trends in package design. Their continuing efforts reflect the research carried on from raw fibre through to consumer use of products, to maintain Scott's position of quality leadership.

Changes in shopping and merchandising patterns have presented Scott with new opportunities. New types of variety stores, multi-unit shopping centers, and large self service drug stores have greatly increased the distribution of Scott consumer products.

Consolidated Statements of Income and Retained Income

	Year ended December 31 1972	1971
Income:		
Sales, less allowances and after deducting		
Federal sales tax of $4,784,593 (1971—$4,314,487) .	$48,117,769	$42,910,244
Expenses (Note 8):		
Cost of products sold	31,571,209	28,500,778
Selling and distribution expenses	10,372,956	8,901,962
Administrative and general expenses	1,826,094	1,579,586
Debenture interest and amortization of issue costs	1,075,899	537,500
Bank interest	27,457	341,493
	44,873,615	39,861,319
Income before income taxes	3,244,154	3,048,925
Income taxes (Note 5):		
Current	1,043,000	923,000
Deferred	514,000	540,000
	1,557,000	1,463,000
Income for the year	$ 1,687,154	$ 1,585,925
Income per share	$2.11	$1.98
Retained income:		
Retained income at beginning of year	$14,132,908	$13,266,983
Income for the year	1,687,154	1,585,925
	15,820,062	14,852,908
Dividends—95c per share (1971—90c per share)	760,000	720,000
Retained income at end of year	$15,060,062	$14,132,908

Consolidated Statement of Financial Position

	December 31 1972	December 31 1971
CURRENT ASSETS:		
Cash and in 1971 short term deposits	$ 23,300	$ 1,122,750
Trade and other accounts receivable	3,500,462	3,088,208
Inventories (Note 2)	9,469,081	8,570,565
Prepaid expenses	255,187	208,087
	13,248,030	12,989,610
CURRENT LIABILITIES:		
Bank indebtedness (Note 3)	1,130,782	1,580,224
Accounts payable and accrued liabilities	5,185,841	4,908,782
Income taxes payable	161,918	205,587
	6,478,541	6,694,593
Working capital	6,769,489	6,295,017
Add—		
NON-CURRENT ASSETS:		
Fixed assets (Note 4)	28,206,145	27,206,221
Unamortized debenture discount and issue expenses	479,677	505,574
Miscellaneous assets	238,751	246,096
	28,924,573	27,957,891
Deduct—		
NON-CURRENT LIABILITIES:		
8¾% sinking fund debentures, Series A (Note 7)	12,000,000	12,000,000
Deferred income taxes (Note 5)	2,034,000	1,520,000
	14,034,000	13,520,000
Net assets	$21,660,062	$20,732,908
SHAREHOLDERS' INTEREST:		
Share capital (Note 6)	$ 6,600,000	$ 6,600,000
Retained income	15,060,062	14,132,908
	$21,660,062	$20,732,908

APPROVED ON BEHALF OF THE BOARD:

Arthur F. Armstrong, *Director*

H. Clark Bentall, *Director*

Notes to Consolidated Financial Statements
As at December 31, 1972

1. Principles of consolidation:
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Westminster Paper Company Limited.

2. Inventories:

	December 31 1972	1971
Finished products and work in process	$ 5,849,331	$ 5,191,546
Raw materials and supplies	3,619,750	3,379,019
	$ 9,469,081	$ 8,570,565

Inventories of finished products and work in process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

3. Bank indebtedness:
The bank indebtedness includes unpresented cheques and is secured by a pledge of the company's accounts receivable and inventories.

4. Fixed assets:

	December 31 1972	1971
Land, at cost	$ 472,805	$ 430,718
Buildings, machinery and equipment, at cost ...	45,816,236	44,753,455
Less: Accumulated depreciation	18,082,896	17,977,952
Net book value of depreciable assets	27,733,340	26,775,503
	$28,206,145	$27,206,221

The company provides depreciation substantially on a straight-line basis at rates estimated to amortize the cost of the fixed assets over their useful lives.
During the year the company, after completing a detailed inventory of buildings, machinery and equipment in use, has removed $1,800,991 from cost and accumulated depreciation representing fully depreciated assets which have become obsolete or were abandoned over a period of years.

5. Deferred income taxes:
On January 1, 1968 the company adopted the tax allocation method of accounting for income taxes for all periods subsequent to that date.
Prior to January 1, 1968 the company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on its fixed assets. Because capital cost allowances exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately $3,902,000 which have not been recorded as deferred income taxes.

6. Share capital:
The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding. Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31, 1972 options to purchase 9,250 shares are outstanding (but not yet exercised) at prices of $30.62 and $36.75 per share, valid for varying dates to 1974.

7. 8¾% Sinking fund debentures, Series A:
On July 2, 1971 the company issued $12,000,000 8¾% sinking fund debentures, Series A, maturing on July 2, 1991. By the terms of the mandatory sinking fund provisions the company is required to retire $360,000 of the debentures per annum commencing on July 2, 1974. The debenture trust agreement contains a distribution test formula which limits the availability of retained earnings for the payment of dividends. As of December 31, 1972 approximately $3,800,000 is available for distribution.

8. Expenses include depreciation of $2,031,235 (1971—$1,779,898) and directors' fees and remuneration of officers who are also directors of $287,210 (1971—$245,849).

Consolidated Statement of Source and Application of Working Capital

	Year ended December 31 1972	1971
Source:		
Operations—		
Income for the year	$ 1,687,154	$ 1,585,925
Add—		
Charges which did not involve an outlay of working capital:		
Depreciation (Note 4)	2,031,235	1,779,898
Deferred income taxes (Note 5)	514,000	540,000
Amortization of debenture issue costs	25,897	12,500
Amounts written-off miscellaneous assets	7,345	—
	4,265,631	3,918,323
Proceeds on disposal of fixed assets	55,346	—
Issue of 8¾ % sinking fund debentures, Series A (net)	—	11,481,926
	4,320,977	15,400,249
Application:		
Additions to fixed assets (Note 4)	3,086,505	3,376,044
Dividends	760,000	720,000
Retirement of long-term bank loan	—	6,100,000
	3,846,505	10,196,044
Increase in working capital during the year	474,472	5,204,205
Working capital at beginning of year	6,295,017	1,090,812
Working capital at end of year	$ 6,769,489	$ 6,295,017

Auditors' Report

1075 West Georgia Street
Vancouver 5, B.C.
February 5, 1973

To the Shareholders of Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited and its subsidiary company as at December 31, 1972 and the consolidated statements of income and retained income and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

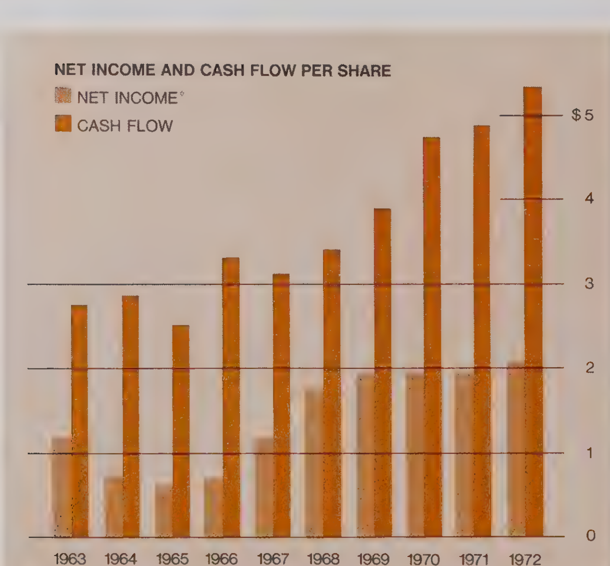
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

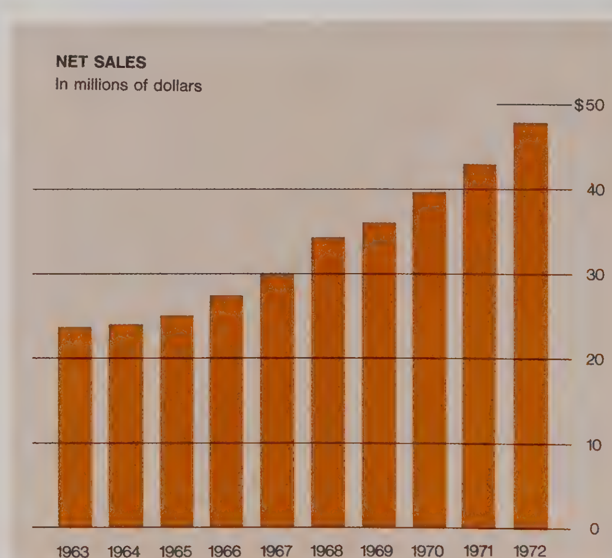
Price Waterhouse & Co.
Chartered Accountants

TEN YEAR REVIEW

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
	(thousands of dollars except Per Share)									
Sales and Earnings										
Net sales	$48,118	42,910	39,762	35,789	34,133	29,894	27,303	25,012	23,807	23,545
Depreciation	2,031	1,780	1,426	1,312	1,223	1,079	1,063	968	827	757
Interest expense	1,103	879	448	334	211	243	325	253	127	46
Income before taxes	3,244	3,049	3,183	3,268	3,020	2,256	1,458	1,005	1,001	1,968
Income taxes*	1,557	1,463	1,600	1,700	1,585	1,297	890	500	410	988
Income after taxes*	1,687	1,586	1,583	1,568	1,435	959	568	505	591	980
Per Share										
Income before taxes	$4.06	3.81	3.98	4.09	3.77	2.82	1.82	1.26	1.25	2.46
Income after taxes*	2.11	1.98	1.98	1.96	1.79	1.20	.71	.63	.74	1.22
Cash flow	5.33	4.90	4.75	3.89	3.39	3.11	3.30	2.50	2.85	2.75
Dividends paid	.95	.90	.90	.90	.80	.80	.80	.80	.80	.80
Shareholders' Interest	27.08	25.92	24.83	23.75	22.69	21.70	20.74	19.85	19.41	18.39
Number of shares outstanding (thousands)	800	800	800	800	800	800	800	800	800	800
Capital Expenditures	$ 3,087	3,376	6,701	4,797	2,188	1,480	1,417	1,891	3,123	2,007
Financial Position										
Current assets	$13,248	12,990	11,113	10,493	9,067	8,459	8,661	8,295	7,680	6,394
Current liabilities	6,479	6,695	10,022	8,585	7,354	6,311	6,124	5,975	4,790	2,790
Working capital	6,769	6,295	1,091	1,909	1,714	2,148	2,537	2,320	2,890	3,604
Fixed assets at net book value	28,206	27,206	25,610	20,334	16,849	15,885	15,483	15,130	14,207	11,910
Long term debt	12,000	12,000	6,100	3,300	700	1,000	1,700	2,000	2,000	1,000

*For purposes of comparison, income taxes and income after taxes for the years 1967 and prior have been restated to reflect the income tax allocation method of accounting used subsequent thereto. This restatement has not been reflected in the financial statements – see Note 5 attached to financial statements.





Officers and Executive Management

CHARLES BENTALL
Honorary Chairman

ARTHUR F. ARMSTRONG
Chairman and Chief Executive Officer

GEORGE L. O'LEARY
President and Chief Operations Officer

*THOMAS J. BIRKENHEAD
Assistant Controller

JOHN W. BOOTH
General Manager, Western Manufacturing Division

*JAMES C. BOYLE
Assistant Vice President, (Director of Industrial Packaged Products, Export and Specialty Sales)

*W. MICHAEL FERRIE
Assistant Vice President, (Director of Corporate Personnel)

*JOHN J. HERB
Secretary, Scott Paper Limited and Vice President, Westminster Paper Company Limited

DOUGLAS HOLME
Vice President (Manufacturing)

NORMAN A. KELLY
President, Westminster Paper Company Limited

WILLIAM M. MATTICE
Director of Quality Control

PETER J. PETERS
Vice President (Finance), Controller and Treasurer

*JOHN F. PHILIP
Assistant Vice President, (General Manager, Eastern Manufacturing Division)

*H. PETER SANAGAN
Vice President (Consumer Products Marketing)

ROBERT T. STEWART
Vice President (Marketing)

DAVID H. STOWE
Director of Sales, Consumer Products

HORACE F. WINCHELL
Vice President (Engineering and Manufacturing Development)

*appointments to officer positions effective January 1, 1973

Transfer Agent and Registrar

THE CANADA TRUST COMPANY
Vancouver, Montreal and Toronto

Stock Listings

Vancouver, Toronto and Montreal Stock Exchanges

Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 11:30 a.m. on April 27, 1973 at The Vancouver Hotel, Vancouver, B.C.

Board of Directors

ARTHUR F. ARMSTRONG*
New Westminster, B.C.

PAUL C. BALDWIN
Director and Vice Chairman, Scott Paper Company, Philadelphia, Pa.

H. CLARK BENTALL
President, Dominion Construction Company Limited, Vancouver, B.C.

GILBERT C. CLARKE
Deputy Chairman of the Board, Standard Brands Limited, Montreal, P.Q.

GEORGE L. O'LEARY*
New Westminster, B.C.

G. WILLING PEPPER
Director and President, Scott Paper Company, Philadelphia, Pa.

PETER J. PETERS*
New Westminster, B.C.

RENAULT ST-LAURENT, Q.C., LL.D.
Partner, St-Laurent, Monast, Desmeules & Walters, Barristers & Solicitors, Quebec, P.Q.

HORACE F. WINCHELL*
New Westminster, B.C.

*Company Officers

SCOTT PAPER LIMITED FIFTIETH ANNUAL REPORT 1972

To The Shareholders

Second quarter sales increased 20.1% to $12,309,081 from $10,249,287 in the corresponding period of 1971.

Second quarter net income amounted to $368,555, or 46 cents per common share — up 9.4% from the $337,005, or 42 cents per share, earned in the second quarter of 1971.

For the first six months of the current year, net sales amounted to $25,462,959 — a 19.1% increase over the $21,373,438 attained in the first six months of 1971. Net income for the first six months of 1972 amounted to $929,025, or $1.16 per share — an increase of 9.4% from the $848,200, or $1.06 per share, earned in the similar period of 1971.

A meeting of the Board of Directors was held in Vancouver on July 12th, 1972. At that meeting the Directors approved an increase in the quarterly dividend on the common shares of the company held of record July 17th and payable July 31st, 1972, from the previous quarterly rate of 22½ cents per share to 25 cents per share.

In the first half of 1972 nearly all of the company's packaged product lines showed sales increases. The growth of new products, including babyScott disposable diapers, exceeded forecasts. Export sales volume continued well above last year, but profitability has been reduced by the continuing premium relationship of the Canadian dollar with the United States dollar.

While the excess of capacity over demand in our industry currently limits the opportunity to achieve a better cost-price relationship on some products, we anticipate a continuing growth in sales and an improvement in earnings per share in the second half of 1972 compared with the results achieved in the second half of 1971. For a number of years, the company's net income in the second half of the year has been lower than that earned in the first half.

We are continuing our substantial investments in the development and marketing of new product lines for the remainder of this year and on into 1973 as an important part of our plans for a more diversified and larger participation in the market growth of convenience and disposable paper products in Canada. We anticipate that this segment of our business will show fast growth in the years immediately ahead. We expect the expenditures now being made in these areas, and charged to current earnings, to result in both sales growth and significant profit improvement for the company.

FOR THE BOARD OF DIRECTORS

A.F. Armstrong
President

New Westminster, B.C.
July 28, 1972

SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS
For the First Six Months of 1972

SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST SIX MONTHS OF 1972

(With corresponding amounts for 1971)

	First Six Months 1972	First Six Months 1971
Sales, less discounts and allowances	$25,462,959	$21,373,438
Expenses (Note 1):		
Cost of products sold	17,208,747	14,366,782
Marketing, general, administrative and development expenses	6,476,949	5,312,441
	23,685,696	19,679,223
Income before taxes	1,777,263	1,694,215
Provision for taxes on income	849,238	846,015
Income after taxes for the period	$ 928,025	$ 848,200
Income per share after taxes	$1.16	$1.06
Dividends paid per share	.45	.45
Number of common shares outstanding	800,000	800,000

Note 1 — Expenses include depreciation of $957,227 (1971 - $853,954).

Note 2 — On July 2, 1971, the Company issued $12,000,000 Series A Debentures, the proceeds of which were applied to the reduction of bank indebtedness. This resulted in a major improvement in the working capital position of the Company.

Subject to audit and year end adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL FOR THE SIX MONTHS ENDED JULY 1, 1972 (Note 2)

(With corresponding amounts for the six months ended June 26, 1971)

	First Six Months 1972	First Six Months 1971
SOURCE:		
Income for the period	$ 928,025	$ 848,200
Add —		
Charges which did not involve an outlay of working capital —		
Depreciation (Note 1)	957,227	853,954
Deferred income taxes	280,000	200,000
Amortization of debenture issue costs	12,949	—
	2,178,201	1,902,154
APPLICATION:		
Net additions to fixed assets	1,466,946	1,464,725
Dividends	360,000	360,000
Decrease long-term bank loan	—	100,000
Net increase (decrease) miscellaneous assets	(2,200)	13,233
	1,824,746	1,937,958
Increase (decrease) in working capital during the period	353,455	(35,804)
Add —		
Working capital at beginning of the year	6,295,017	1,090,812
Working capital at end of the period	$6,648,472	$1,055,008